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C O N F I D E N T I A L BUENOS AIRES 000514

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TAGS: [ECON](#) [EINV](#) [ETRD](#) [EFIN](#) [PREL](#) [AR](#)  
SUBJECT: ARGENTINA: ANTI-KIRCHNER BRIEFING DELIVERED TO  
INSTITUTIONAL INVESTORS IN THE CASA ROSADA

REF: A. 08 BUENOS AIRES 1583  
[1](#)B. 08 BUENOS AIRES 1392  
[1](#)C. BUENOS AIRES 215

Classified By: Charge Thomas P. Kelly Reasons 1.4 (B,D)

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Summary  
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[1](#)1. (C) Jorge O'Reilly (PROTECT), a top advisor to Argentina's Cabinet Chief Sergio Massa, offered a blunt critique of Argentina's economy and GoA policies during an April 21 meeting with foreign institutional investors. Speaking in the Casa Rosada, he predicted a sharp recession in 2009, with continued high capital flight and a much weaker currency. O'Reilly acknowledged that Argentina's investment climate needs major work, but nevertheless highlighted attractive investment opportunities, particularly in service/high-tech sectors. He downplayed the chances of a rapprochement with the IMF under the current Kirchner regime, but held out hope for Massa's negotiations with holdout bondholders. He bemoaned his and Massa's failure to convince the Kirchners to implement more rational economic policies and predicted that Massa and he are not long for the GoA. End Summary.

[1](#)2. (SBU) EconCouns joined an institutional investor group briefing by Jorge O'Reilly (PROTECT), advisor to Chief of Cabinet Sergio Massa April 21. Attendees included Guillermo Besaccia, Schroders' Emerging Market Debt Fund Manager; Yong Zhu, Dupont Capitals Senior Portfolio Manager; Avi Hooper, Blackfriars Asset Management Portfolio Manager, and Wendy Polanco of sponsor Trans-National Research Corporation. The group had earlier met with FIEL's chief economist Daniel Artana and political consultant Sergio Berenzstein. They had follow-on meetings set with former Finance Under Secretary Miguel Kiguel and BCRA Director Carlos Perez.

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Projects Recession, Depreciation, Capital Flight  
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[1](#)3. (C) O'Reilly was extraordinarily frank and provocative with the investors, considering his position and the venue. In the face of Kirchner administration budget projections of 4% GDP growth in 2009, he called a decline of -2 to -3% a "reasonable assumption." O'Reilly admitted that capital flight would certainly continue in the run-up to June 28 mid-term elections (an April 28 Central Bank release reported US\$ 5.7 billion in capital outflows during the first quarter of 2009), partially an ongoing legacy of capital market jitters generated by the GoA's late 2008 nationalization of private pension funds. He predicted that the Argentine peso would end calendar year 2009 at the 4.5 - 4.6:1 level (well

below current futures markets rates in the 4.2:1 range).

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#### Investment Climate Needs Fixing

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¶4. (C) In response to investor questions on steps the GoA needs to take to attract new FDI flows to sustain investment in primary infrastructure, O'Reilly said that getting Argentina's investment climate right "is hardly rocket science." Argentina needs judicial, regulatory, and legislative security, he argued. He offered Argentina's early 1990s world-class mining investment law as a case in point, lamenting that the long-term tax certainty the law established was "torn apart" by the GoA's imposition in 2008 of export tariffs on metals and minerals.

¶5. (C) "Some of us, including Minister Massa" are working to address the GoA's "shortsighted" manipulations of tax and regulatory policy, O'Reilly said. Argentina needs to slowly adjust public utility tariffs to "rational" levels. It also needs to correct the currently distorted tax regime whose focus on short term revenue generation has led both the Federal and Provincial governments to "strangle" those taxpayers that are easy to catch.

¶6. (C) Nevertheless, O'Reilly highlighted a number of sectors and current opportunities in Argentina he thought would be attractive to potential investors. Although "we've done our best to destroy the agricultural sector," he said he sees promise in real estate, tourism, IT and call center services, and the oil & gas sectors -- the latter once domestic

hydrocarbon prices equilibrate with global levels. Argentina has high-quality human capital, he argued, but "we've been neglecting education and risk losing this competitive advantage."

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#### GoA Hopes for No-Condition IMF Funds "Childish"

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¶7. (C) On Argentina's efforts at the early April G-20 Summit in London to revamp the IMF's lending structure and to lock-in new low- or no-conditionality IMF funding, O'Reilly said: "We really don't have the moral authority to say much on IFI restructuring." He argued that, because former president and now first husband Nestor Kirchner still sees any GoA accommodation with the IMF as limiting domestic economic policy and decision making autonomy, it will be difficult for the GoA to agree to any significant IMF oversight while the Kirchners remain in office. In this context, O'Reilly concluded, "the dreams of some in the GoA that Argentina can obtain low- or even no-conditionality credits from the IMF are childish."

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#### Ongoing Discussions on Bond Holdout Settlement

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¶8. (SBU) In response to a question from a fund manager on the status of Argentina's seemingly on-again, off-again discussions with "holdout" sovereign debt bond holders, O'Reilly said that Chief of Cabinet Massa was continuing to discuss a settlement offer with the troika of banks, Citi, Barclays, and Deutsche that had brought a settlement proposal to the table in the Fall of 2008. "They're frequent visitors here," O'Reilly said, and the GoA hopes to get something done shortly.

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#### (C) Massa Not Long for Kirchner Administration

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¶9. (C) In a private follow-on meeting with EconCouns, O'Reilly spoke of Chief of Cabinet Massa's frustration at not having been successful in "bringing others in the Kirchner administration to their senses" on the need to declare and

sustain a rational economic policy mix. He admitted that both he and Massa were not long for the GoA and said that that Massa hoped to return to his position as the Mayor of Buenos Aires' Tigre suburb. (Massa continues to diverge from the party line. On May 3, he implicitly took issue with First Gentleman Nestor Kirchner's warnings of doom if the government slate fails to prevail in the upcoming mid-term elections, saying "it's not worth speculating" about what would happen.)

¶10. (C) O'Reilly criticized the GoA's short-term focus and said that Argentine government officials are so used to periodic crises that they are unable to focus on the nation's longer term planning needs. EconCouns thanked O'Reilly for his earlier support on moving forward the US\$ 1.4 million claim of a U.S. printing company (Bowne of New Jersey) against the GoA and his earlier willingness to discuss the concerns of the two U.S. insurance companies that had their local assets expropriated when the GoA nationalized the private pension system last fall (Ref A). O'Reilly closed by calling himself the GoA's "corporate conscience" and offered to provide assistance on other specific investor disputes.

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Comment  
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¶11. (C) In the run-up to June 28 mid-term elections, the Kirchner administration has closed ranks, quickly -- and often harshly -- disciplining those GoA officials or private sector players who stray from the party line on inflation (under control), poverty (declining), GDP growth (in line with earlier forecasts), and the source of current economic problems (the global financial crisis catalyzed by the United States and other developed countries). There are a few dissidents within the GOA who are resisting. O'Reilly, a conservative real estate magnate who landed in the Casa Rosada because of his close relationship with Massa (Ref B), is Exhibit A. His frankness is no srprise. He never believed in the party line in the first place, and we've heard him slam the Kirchners before (Ref C). What is  
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striking, though, is that he felt comfortable damning Kirchner administration policies within the walls of the Casa Rosada, and that he invited the Embassy to send someone over to hear him do it. It is the latest indication of his boss Sergio Massa's estrangement from the ruling couple and imminent departure from the GoA.  
KELLY